National Audit Office

A REVIEW BY THE PERFORMANCE MEASUREMENT PRACTICE

JULY 2009

Performance Frameworks and Board Reporting

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The responsibility for taking forward strategic aims is invested in Departmental Boards. The effectiveness of Board decision making is therefore central to achieving Government objectives and value for money.

Contents

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Part One

Summary

1.1 Government Departments are responsible for delivering the ambitions of Government, including tackling the long-term challenges facing the UK. Whether a Department is responsible for reducing child poverty, tackling climate change, or improving healthcare it must make decisions about how to "*prioritise its interventions and secure the greatest possible efficiency for every pound of taxpayers money it spends*" (CO, 2009).

1.2 The responsibility for taking forward strategic aims is invested in Departmental Boards[1]. The effectiveness of Board decision making is therefore central to achieving Government objectives and value for money. Performance information presented to Boards must allow the Board to: focus on the things that matter, understand and agree on what the business needs to do to deliver organisational objectives, explain business performance, and take well-informed decisions.[2] The best way to structure and present performance information has been the subject of much analysis and debate in both public and private sectors. This paper examines current central government practice by reference to a survey and case studies (see Appendix 1 for methods).

Overview

1.3 In the last decade performance measurement has been a key theme in Central Government and all the organisations we surveyed have some form of performance measurement framework. In most cases a broad framework exists to structure performance information, and there is some evidence of good practice; with frameworks being used to bring about performance gains and support performance management. But there is clear scope for improvement, and a need to get more value from the considerable, if unquantified, costs incurred in creating and operating the frameworks. We have structured our findings in three Parts: developing a framework; reporting performance information; and ensuring performance information is used. The main messages are:

- **performance measurement frameworks are widely used, and focus on strategic objectives, but rarely relate to a coherent business model or provide a comprehensive picture of performance**.

1 HM Treasury (2005). "*Corporate governance in central government departments: Code of good practice*"
2 KPMG (2008). "*National Audit Office: Board Reporting & Management information – Discussion Pack*".

It is important for Boards to focus on what matters, but agreeing priorities can often be contentious with differing perspectives across different policy areas or Directorates. Many organisations we surveyed used a performance framework that catered for both “results” (including outputs and outcomes) and “enablers” (including inputs, planning and processes). But we saw little evidence of frameworks being supported by clear business models that persuasively linked inputs through processes to outputs and outcomes. And we noted organisations either measuring outcomes over which they have little influence, or undertaking outputs and activities which had little influence on the outcomes sought. Better use of models can maintain a logic to the summarisation of information for a Board, and aid its interpretation.

- **organisations need to devote more attention to data quality, and improve its presentation, to support decision-making**.

  Producing high quality data is essential to the utility of performance information and was identified by 13 out of 36 survey respondents as the greatest challenge, and critical success factor to developing an effective performance measurement framework. Routine validation of the data systems underpinning Government priorities regularly highlights poor data quality and our follow-up work provided several examples of frameworks operating with little attention to the quality of the measures used to populate them. Presenting performance data in context generates performance information. For example, by presenting measures against benchmarks Boards can compare performance and judge value for money. Our review of Board reports showed that they often lacked clarity and would benefit from a more analytical explanatory commentary.

- **performance measurement frameworks did not link financial information and performance information satisfactorily, hindering informed strategic decision-making**.

  We found that few organisations had a good understanding of the links between financial or cost information and performance information. And around a third of respondents did not use performance information to make strategic decisions about resources or process improvement. In our follow-up interviews, however, we identified organisations that, with the help of a performance measurement framework, had created a performance improvement culture by involving and unlocking the potential of staff.

1.4 The case studies in this report give examples of how some organisations have met these challenges and implemented performance measurement frameworks to improve service delivery. In Appendix 2 we provide a matrix to enable organisations to assess their current stage of maturity and plan improvements.

Part Two

Developing a framework

2.1 An effective performance measurement framework (see **Figure 1**) helps a Board to take informed strategic decisions about how best to pursue the organisation's objectives.[3] From our survey, we identified three factors in the development of a performance measurement framework that contribute to its effectiveness:

- **Formulating clear and agreed strategic objectives** is essential given the potential for confusion afforded by changing priorities, numerous stakeholders, and complex delivery chains;
- **Understanding the business** and tailoring the performance measurement framework to focus on the key delivery drivers for achieving strategic objectives;
- **Getting a comprehensive but concise picture** of organisational performance to allow the Board to monitor "enablers" as well as "results" and so have some confidence in managing future performance.

Formulating clear and agreed strategic objectives

2.2 Unclear or conflicting objectives can distort the focus of performance measurement and lead an organisation to allocate resources inefficiently or engage in activities that do not provide Value for Money.[4] Furthermore, if objectives are not shared throughout an organisation or amongst partners, there is a risk of working towards different, incompatible goals and failing to achieve desired outcomes.[5]

Figure 1

Performance Measurement Framework

A performance measurement framework is a management tool that links all the performance information in the organisation. It enables the selection and prioritisation of performance indicators. A good performance measurement framework will tell the "whole performance story" of an organisation and link inputs, outputs, and outcomes. It will allow a Board to take decisions that are based on the best evidence and provide Value for Money.

3 HM Treasury et al., *Choosing the right FABRIC: A Framework for Performance Information*, 2001.
4 NAO, *Good Government*, 2008, p. 12.
5 NAO, *Joining up to improve public services*, p. 9. The report goes on to list failures due to lack of shared objectives, p. 20, p. 47.

2.3 Eleven per cent of survey respondents considered focusing on strategic objectives to be a major challenge in developing effective performance measurement. The main difficulty identified was aligning stakeholders and senior management behind an agreed but concise set of objectives. Central Government organisations also have to integrate numerous cross-Government initiatives, like the efficiency or better regulation agendas. For Executive Agencies and Non-Departmental Public Bodies (NDPBs) formulating strategic objectives means engaging with parent or lead Departments, Cross-Government policies, other Central Government delivery bodies, Local Authorities, and stakeholders outside of Government, such as service users or citizen groups.[6]

2.4 **Figure 2** provides a selection of survey responses from Finance Directors of Central Government organisations. The following case example shows how one organisation dealt successfully with some of these challenges.

Figure 2

Challenges to focusing on strategic objectives (selection of responses to NAO survey of Central Government Financial Directors)

- "Handling the issues of changing priorities around key objectives."
- "Diversity of the organisation. Finding the balance between the various elements of the organisation and the need to distil the outputs to a manageable level."
- "Getting alignment between the objectives set for us by Government, and the objectives that we set for our contractors. Part of the problem for us is defining the high level policy objective in strict [operational] terms."
- "Proper, informed negotiation of the PSA in the first place. Sometimes we think what we have to deliver was not clearly thought through."

Case example

2.5 **A large global investment bank** identified that senior managers and their business units often have differing understandings of what the overall business strategy is and how it should be implemented. Following a review of numerous strategy documents, interviews with senior managers identifying 45 different monthly reports and 2,300 metrics, the bank re-formulated its strategic objectives into three distinct goals against which its key performance metrics could be mapped:

- Building client intimacy
- Accelerating growth businesses
- Creating a 'factory' to industrialise internal processes

6 Talbot, et al., *Exploring Performance Regimes: A New Approach to Understanding Public Sector Performance*, Report for the National Audit Office, 2005.

2.6 The review process increased the use of supporting evidence in the business strategy. The objectives were then agreed by the board as the most important levers against which to measure the success of the business strategy. The clarity and conciseness of the objectives articulated the intended goals in a way that allowed them to be easily translated in tangible and measurable indicators.

Understanding the business

2.7 Performance information must enable a Board to exercise strategic control over the organisation. A performance measurement framework must therefore cover the key processes in the organisation and reflect a robust understanding of the business. To develop an effective performance measurement framework an organisation must:

- identify the main drivers of objective achievement, and develop a causal model of how they interact with each other and with the environment; and
- understand who, within or outside, the organisation is responsible for delivery by developing a delivery map and schedule.

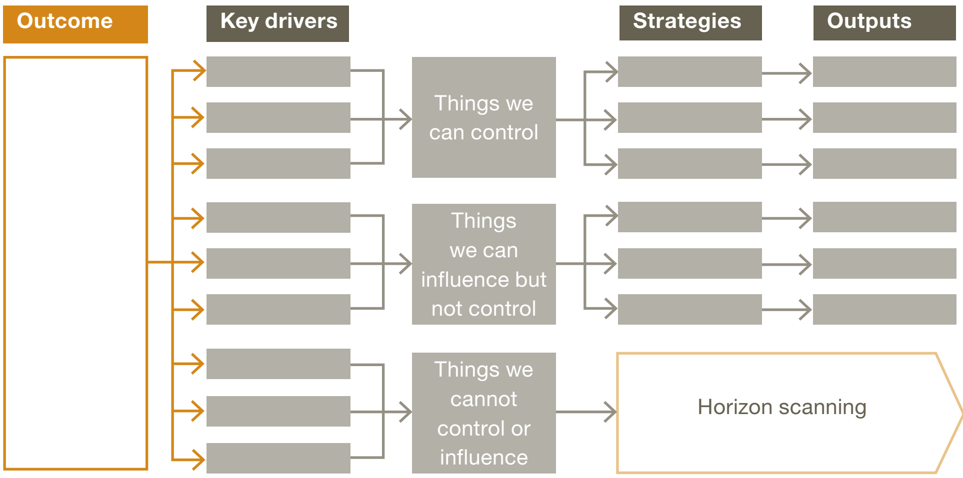
Causal models

2.8 Causal models articulate what an organisation must do to achieve its objectives, and show how the selected actions will produce the intended effects. Government's top-level objectives are now specified around improving societal outcomes: in most cases these are challenging objectives, with many plausible actions which could contribute, as well as choices for each action about the delivery route (public, private or voluntary sectors, for example). If objectives are to be achieved cost-effectively, a Department must fully understand not only the likely cost-effectiveness of options for action, but also how they interact with each other, and how they should be scheduled.[7]

2.9 Causal models tend to be complicated, and make heavy demands on the research base on "what works" and on data systems. Spending Review guidance has recommended the preparation of causal models since SR2000. The Cabinet Office found, however, in its recent Capability Reviews that Departments often do not understand or communicate their business models well.[8] While the models may be complicated, they can be simplified (as shown in **Figure 3**) to help those in the delivery chain understand the significance of their activities to overall performance, and to facilitate performance management overall.

7 National Audit Office, *Good Government*, 2008.
8 Cabinet Office, *Capability Reviews: Progress and Next Steps*, 2007.

Figure 3
Causal Model



2.10 A causal model is necessary to get most value from monitoring progress, as well as planning appropriate action. Many of the outcomes the Government seeks to achieve are not influenced by Government action alone, but also by many external factors, for example; achieving "better health and wellbeing for all" and "world class science and innovation in the UK", as expressed in two of the current Public Service Agreements. Many Central Government organisations find it difficult to establish their contribution to intended outcomes.[9] It is important to understand the contribution of the three sets of drivers illustrated above to outcomes being monitored both to choose appropriate responses to emerging circumstances and to get an accurate view of Departmental performance.

Case example

2.11 The former **Department for Innovation, Universities and Skills (DIUS)** (now the Department of Business Innovation and Skills) delivers a broad agenda. One of the Department's objectives is customer satisfaction. In a report commissioned by the NAO, KPMG assisted DIUS to explore a causal model that shows how the Department's activities lead to the achievement of customer satisfaction[10] (see **Figure 4** overleaf).

9 National Audit Office, *Acting on Information*, 2005: Two thirds of Departments have difficulties establishing measures which show the Department's contribution to final outcomes.
10 KPMG, *On Delivery*, 2008, p. 4. Available at: http://www.nao.org.uk/guidance_and_good_practice/good_practice/performance_measurement.aspx

Figure 4
Causality model for DIUS Customer Satisfaction target

Outcome	Key driver	Strategy	Output
To improve customer satisfaction by three percentage points each year from 2009 to 2011 as measured by question six ('overall satisfaction') on the annual customer satisfaction survey, using the 2008 survey as a baseline.	Being able to get in touch with the right person in the organisation.	Improving customer access.	Customers to be directed to the right person at their first point of contact.
	Transactions between customers and the organisation being processed promptly.	Improving processing times.	For all significant transaction streams, transactions to be processed within agreed timescales.
	The organisation's staff having a positive, friendly attitude when dealing with customers.	Improving staff attitudes.	Staff to deal with customers in a friendly and positive manner.

2.12 DIUS populated the causal model by first clearly defining the scope of the objective in terms of outcomes. Then they identified key drivers that have a positive impact on customer satisfaction, and developed strategies to achieve them. The strategies specified outputs that contribute to the overall outcome of customer satisfaction.

2.13 For a causal model to deliver value, the cause-and-effect relationships must be based on evidence and validated. Research shows that private sector organisations that develop and validate a causal model consistently outperform other organisations and achieve on average a 5.1 per cent higher return on equity. Validation in this context means using "actuals" data to check on the correlation between individual performance measures and progress in achieving strategic objectives.[11] Validating the causal model has the benefits of increasing confidence in the model, uncovering false assumptions and facilitating accurate learning from experience. By validating the links between the metrics in its performance measurement framework, the **global investment bank** in Section 2.5 was able to determine the importance of individual drivers in contributing to the intended outcome, as well as identifying leading indicators (see **Figure 5**) for the achievement of strategic objectives.[12]

11 Ittner, Christopher D. and David F. Larcker, *Coming Up Short on Nonfinancial Performance Measurement*, Harvard Business Review, November 2003, p.91.
12 Accenture, *Performance Measurement Frameworks In Board Reports: Insights Into Leading Practice From The Private And International Public Sectors*, 2009,p.37.

Figure 5
Leading indicators

An indicator is "leading" if it is linked to, and precedes, the value of some subsequent result. Leading indicators can therefore be used as predictive tools. For example, an increasing level of staff turn-over could be a leading indicator for declining customer satisfaction and increasing training costs.

Delivery maps

2.14 Delivery maps demonstrate *how* an organisation will deliver the required actions, by mapping the processes within an organisation as well as the responsibilities of delivery partners. In practice, many different bodies are often involved in achieving the Government's objectives (see **Figure 6**). We found organisations that had significantly improved their performance by establishing how to deliver and execute their strategy by mapping the delivery chain and using process improvement methodologies.[13] An example is the Criminal Injuries Compensation Authority.

Figure 6
Delivery partners of PSA 28

PSA delivery agreement 28 "Secure a healthy natural environment for today and the future" shows that a lead department, three NDPBs, 9 other Departments, Regional Development Agencies, Local Authorities, devolved Government bodies and Third Sector organisations are involved in the delivery of a single PSA.

13 National Audit Office, Delivering Efficiently – *Strengthening the links in public service delivery chains*, 2006.

Case example

2.15 The **Criminal Injuries Compensation Authority (CICA)** was struggling with long processing times before it used process improvement methods to map the delivery cycle of its core business. As a result, the process was grouped into four stages and performance indicators were attached to each stage to monitor the cycle (see **Figure 7**).

2.16 CICA specified a rationale for each indicator emphasising its purpose and putting it into an organisational context (**Figure 8**). Since focusing on the key indicators, CICA can model and predict the case load and has set ambitious targets for the future.

Figure 7
CICA's process indicators

Process stages	Key Performance Indicator
Stage A Application to final Registration	Time to Register an application
	Ineligible applications and nil awards
Stage B Registration to First Decision	Size of live caseload
	Active caseload cycle time to first decision
Stage C Request to Review to Review Decision	Active caseload cycle time to complete review
	Cases outstanding over 2 years
Stage D Appeal	Appeal stage response times
	Decisions overturned

Figure 8
The rationale for indicators

The objective underlying the first indicator, "Time to register an application" for example, is:

> "To record initial applications as quickly as possible after they are received." (Target = 3 days)

Its rationale is,

> "To provide victims of crime with as fast a service as possible by ensuring the Authority does not distort its statistics by delaying the addition of new applications to its case load."

Getting a comprehensive picture

2.17 Our survey showed that one in five respondents considered selecting the most relevant measures to be both a critical success factor and major challenge. The main difficulty was striking the right balance between comprehensive and concise performance reports, while accommodating the complexities of the organisation (see **Figure 9**).

2.18 55 per cent of Central Government organisations in our survey adopted a Balanced Scorecard (BSC) approach to structure their performance information. The best BSCs are developed in conjunction with causal models,[14] so selection of measures are relevant and linked to achieving strategic objectives. The original BSC linked 'Financial Results' to 'Customer Satisfaction', underpinned by the quality of 'Internal Processes' in turn supported by 'Learning and Growth'. However, our analysis of Board performance reports showed that many organisations apply BSCs ineffectively. For example, we found BSCs composed entirely of programme milestones, with no indicators of results. In other cases, the main categories of the BSC had been used as "buckets" into which available indictors had been grouped, without clear links to each other or to the business model. BSCs constructed purely as a presentational device will not yield the insights into future performance that the "balanced" technology was designed to provide.

Figure 9

Challenges to selecting relevant measures (selection of responses to NAO survey of Central Government Finance Directors)

- "The Board's desire for comprehensive performance information on the one hand and, on the other, a short, concise Board report."
- "Keeping it simple yet meaningful. There is a need for constant vigilance in ensuring the Board is not overwhelmed by too much information, yet has sufficient to enable effective risk management and planning."
- "In a complex organisation with a matrix management structure and multiple external stakeholders, designing a framework that will meet the priority needs internally and externally is a challenge."
- "Managing complexity – agreeing the appropriate balance of data to measure/assess to be able to control programme delivery and take appropriate interventions, whilst not overburdening delivery teams with onerous data collection requirements."
- "Bringing together all aspects which influence Departmental performance, including resources, capability, and in our case, assessing the delivery of [the Department]'s remit […]."

14 Kaplan, R. S. and D. P. Norton, *The Balanced Scorecard – Measures That Drive Performance*, Harvard Business Review, 1992.

Case example

2.19 The former **Department for Business, Enterprise and Regulatory Reform (BERR)** (since merged with DIUS to form the Department for Business, Innovation and Skills) is responsible for a wide range of policy areas including consumer issues, better regulation, employment matters, and economic development. This large portfolio poses a challenge in providing the Board with a comprehensive picture of the organisation's performance. To structure the information and make it accessible to Board members, BERR developed a BSC that takes account of its intended strategic outcomes, the resources it uses, stakeholder views, and its capabilities (see **Figure 10**).

2.20 The scorecard integrates the Department's strategic objectives and has a strong narrative, which shows how BERR's objectives can be achieved by stakeholder engagement, efficient resource management, and organisational capability. These four perspectives provide the Board with a comprehensive overview of the determinants of BERR's success. The headline indicators and traffic light ratings make it simple to read. Additionally, the scorecard is supplemented by more detailed reports on each indicator, so Board members can drill down to obtain information on the headline indicators. Board members can navigate from a broad overview of the organisation to a robust assessment of lower level performance.

Figure 10

BERR's Corporate Balanced Scorecard (Ratings are illustrative only)

Part 1: Board priorities

Balanced Scorecard 2008-09

Delivering our objectives			
Top 16		↑	
PSA indicators			
DSO indicators		↑	

Managing our resources			
Managing within CSR settlement	AR	↔	1
Admin budgets/workforce planning	AR	↔	2
Delivering value for money savings	AG	↔	3

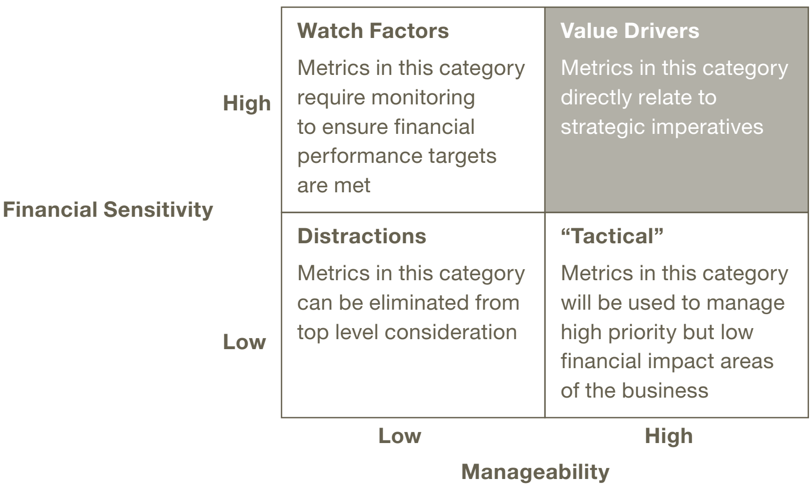
Being the voice for business in Government			
Communicate BERR's role	AG	↑	
Gather/analyse business issues	AR	↔	4
Work successfully with OGDs	AR	↔	
Building our reputation with business	AG	↑	

Improving our capability			
Driving improved performance	AG	↔	
Delivering effectively with our partners	AG	↔	
Developing our people	AG	↔	

Selecting a concise set of measures

2.21 To prioritise and reduce the number of reported measures to only the most important measures, organisations can filter and map them according to their importance. Typically, an organisation will already record a large amount of information. To select the most important indicators to report to the Board, the **global investment bank** from Section 2.5 applied a "filter" to eliminate redundant metrics. It assessed existing indicators to identify groups of indicators measuring similar things, or those in a clear hierarchy, or not relevant to business concerns. By eliminating overlapping measures, the bank reduced the number of metrics throughout the organisation from 2,300 to 73 and mapped all measures to its three strategic objectives. The 73 included a few new indicators where the process had identified gaps in measurement. The bank then used its validated causal model to determine which indicators had the greatest impact on its objectives and grouped them according to their importance. With the prioritisation illustrated in **Figure 11**, the bank selected the most important measures in light of its strategic outcomes.

Figure 11
Prioritising Metrics



Part Three

Reporting performance information

3.1 The best selection of measures is of little use if monitoring data are unreliable or not reported effectively. The following factors are important when reporting performance information:

- **Constructing valid measures** is necessary to ensure that indicators reflect what they are intended to and provide a solid basis for decision making;
- **Producing high quality data** is a precondition for the utility of performance information and generates confidence in the performance report;
- **Reporting information in context**, for example in relation to targets or benchmarks, allows the Board to evaluate how well the organisation is performing and achieving Value for Money;
- **Presenting information with analysis and insight or commentary** enables Boards to easily understand, and engage in, performance discussions and provides a good basis for making decisions.

Constructing valid measures

3.2 Our recent survey found that one in four respondents considered developing valid measures a challenge to implementing effective performance measurement frameworks. This results corroborates previous survey findings that showed that "identifying high level quantifiable measures of intended outcomes" to be a significant challenge for Government Departments. Our recent analysis of the data systems underpinning Departmental Strategic Objectives showed that almost one fifth had weaknesses in matching the specification of the intended indicator.

Case example

3.3 The **British Council (BC)** seeks to achieve "engagement and trust for the UK through the exchange of knowledge and ideas between people worldwide". The aim is achieved through programmes in areas such as education, English language and culture, and governance, looking to influence and facilitate change in four key ways:

- altering perceptions: changing the level of understanding or opinion held by our target audience on a particular issue;
- agenda setting: changing the priority given to a particular issue among opinion-formers and decision-makers;

- capacity building: increasing the capacity – skills, personnel, institutions and resources – to engage in or react to a particular issue; and
- institutional change: changing policy, organisational or civic structures, legal or regulatory frameworks relating to a particular issue.

3.4 BC has developed a template to structure its assessment of the impact of its programmes. The template breaks down the potential impacts above into five dimensions (see **Figure 12**) which taken together can help assess the scale of impact. The contribution of a suite of related programmes can then be assessed on a common basis at portfolio level, against higher level objectives. This example shows how an organisation can gain traction on complex multi-layered outcomes in a way that helps programme and corporate management.

Figure 12
The British Council's Impact model (3P2L)

Dimension	Rationale
Participants Practitioners Policy leaders	These dimensions measure the size and type of audience reached by a particular programme.
Leverage	This dimension measures the knock-on effects of a project beyond the directly reached audience. This may include media attention or follow-up events.
Legacy	This dimension measures the long-term tangible impacts of a project such as changes in school curricula or education policy. This measure allows BC to assess whether or not intended outcomes have been achieved.

Producing high quality data

3.5 In our survey, Central Government organisations identified data quality as the most important success factor in developing an effective performance measurement framework:

- Data quality needs to be supported by robust systems of control which can withstand organisational changes;
- Data that are inaccurate or unreliable will reduce the Board's confidence in the information and distort the Board's decisions;
- Information that is out-of-date reduces a Board's ability to respond effectively to events, and hinders forecasting.

Accuracy, reliability, and robustness of data

3.6 The NAO validates PSA data systems to assess whether they are robust, and capable of providing reliable, valid information. For the Spending Review period 2005-2008 we found only 50 per cent of systems to be "fit for purpose." In interviews to follow-up our survey we found little awareness at executive level of data quality issues. We can infer that Boards are often unaware that they are making decisions on, or taking assurance from, poor quality data.

Case example

3.7 The **Independent Living Fund (ILF)** is an Executive Non-Departmental Public Body that assesses the eligibility of applications for financial support for disabled people and processes direct payments to successful applicants. With over 21,000 service users and cyclical variations in the number of applications, ILF's Board and senior management team depend on accurate and reliable data to allocate resources appropriately to ensure efficiency and short processing times. ILF uses a series of control checks on each data stream to validate results.

3.8 The measure "award accuracy", for example, informs the Board of the level of accuracy with which applications are awarded ILF benefits. To record the measure and ensure high levels of accuracy, each regional team manager performs a pre-authorisation check of 10 per cent of all awards made by Assessment Officers in their team. This check involves revisiting each stage of the decision making process to determine whether the correct policies and procedures were applied and the correct information was used to make the decision. The software used to process applications randomly selects 10 per cent of all awards to the manager. Once the team manager is satisfied that the award has been made correctly he or she then authorises the award for payment. Any identified errors will be recorded in the system and the manager corrects the errors before the award is made. Additionally, the Senior Operations Manager performs monthly validation checks. This involves a random number of pre-authorisation checks covering all the regional teams. As a result, award accuracy is at 95.8 per cent[15] and the Board reported having confidence in the figures. Fluctuations in accuracy or problems with individual team members are addressed by additional training and if necessary employment contracts are terminated where the Assessment Officer is not performing to a satisfactory standard.

Timeliness of information

3.9 Our survey showed that the information Boards receive was often more than one month old, and in some cases more than three months old. A recent study by Deloitte also found that "lack of up-to-date information for decision making" is a "significant barrier" for public sector organisations.[16]

15 ILF Performance report for period April 2008 – June 2008.
16 Deloitte, *Mastering Finance in Government: Transforming the Government Enterprise Through Better Financial Management*, 2008, p. 8.

Case example

3.10 The **Highways Agency (HA)** is a large executive agency with over 3,500 staff and a budget of over £6bn in 2008. Despite its size and complexity, HA maintains a strict 10-working-days target for the timeliness of information to the Board. Data is collected from six directorates and communicated through several organisational levels. HA attributed their success in meeting the target to two factors:

- A direct link between objectives, operational delivery, and the data collection and collation process;
- Board level ownership of the timeliness of measures ensures a strong incentive for directors to provide the information in time to avoid gaps in the Board report.

Reporting Information in context

3.11 Performance information is most powerful when it is presented in the context of expectations or comparisons. This type of additional information – in form of targets and benchmarks – enables stakeholders to make a judgement on the organisation's performance and the Value for Money it delivers. Targets and benchmarks can act as performance levers to incentivise the behaviour of staff, contractors, and delivery bodies.[17]

Target setting

3.12 Targets are important in setting the level of expectation for Government spending and action, but must be applied with care to avoid producing adverse or unintended consequences:[18]

- By specifying **excessive detail** targets can reduce the autonomy of public service managers to make on-the-ground decisions;[19]
- Increasing bureaucracy as a result of the **administrative burden** can have a negative impact on the motivation of the workforce. For example, HM Treasury found, for each headline PSA, at least a 10 fold multiplier of additional indicators and targets along delivery chains.[20]
- Designing targets that are too **stretching** can potentially have a negative impact on managers and staff by being unachievable and may require employees to focus on those targets to the exclusion of all others, causing other aspects of the organisation to suffer.

17 National Audit Office, *The Use of Sanctions & Rewards in the Public Sector*, 2008.
18 National Audit Office, *Sanctions & Rewards*, p. 32.
19 HM Treasury, ibid., p. 11.
20 HM Treasury, *Devolving decision making*: 1 – *Delivering better public services: refining targets and performance management*, 2004, p. 13.

Case example

3.13 The **Environment Agency (EA)** is an Executive Non Departmental Public Body with a large policy portfolio, ranging from flood protection to looking after wildlife; the EAs model of delivery is also highly regionalised. To ensure the most effective delivery, EA has shifted away from a prescriptive approach to target setting at output level. Instead, EA sets high level outcome targets at a corporate level and delegates decisions over how to achieve them to regional and business units. EA requires all business plans to map activities to the outcomes they are delivering. Outcome planning is supported by clear guidance for operational units.

Benchmarking

3.14 Only 33 per cent of respondents to our survey reported using benchmarks from other UK public sector organisations and even less (24 per cent) used benchmarks from comparable international organisations. Comparison against peers allows organisations to identify scope for improvement and efficiencies. Even between dissimilar public bodies, there are common activities that can be compared, for example:

- ICT support functions;
- Human resources;
- Asset management; and
- Procurement of common goods and services.[21]

Case example

3.15 The **German Federal Employment Agency** uses tailored benchmarking of local agencies to motivate staff and locate good practice. The Agency's new structure uses benchmarking to rate how local agencies are performing against a number of performance indicators. Local agencies are classified according to the nature of labour market conditions they face; whether the agency is in a rural or urban environment, and whether there is high or low unemployment. By comparing agencies operating in similar environments, the regional and head offices have better visibility of how well local agencies are being managed given their particular circumstances. More importantly, the agencies themselves know where they need to improve performance. This added transparency is motivating staff to ensure their office compares well against its peers. Tables and graphs based on key performance indicators are displayed at the staff entrance.[22]

21 NAO, *Progress in improving government efficiency*, 2006, p. 64.
22 NAO, *Progress in improving government efficiency*, 2006, p. 65.

Presenting performance information

3.16 Boards only have a limited amount of time to discuss performance information. Performance reports must therefore be presented to focus attention on the most important strategic issues. Poorly structured reports increase the time it takes for the Board to understand and focus on the most important issues. Board performance reports can make performance information more accessible and useful to Board discussions by:

- Including **commentary** explaining performance and providing analysis to help Board members understand the issues;
- Making performance information easy to read, by using **graphs and charts**;
- Designating **senior responsible** owners for individual indicators to increase accountability, clarify responsibilities and incentivise behaviour; and
- Updating previously **agreed actions** to allow the Board to follow-up on decisions and ensure their implementation.

3.17 Our analysis of the Board reports showed that while 78 per cent use commentary to explain performance, 44 per cent of Board reports do not use graphics, 59 per cent do not show previously agreed action points, and 67 per cent did not show designated "target" owners. Some of the reports we analysed were over 100 pages in length or had no coherent organising principle.

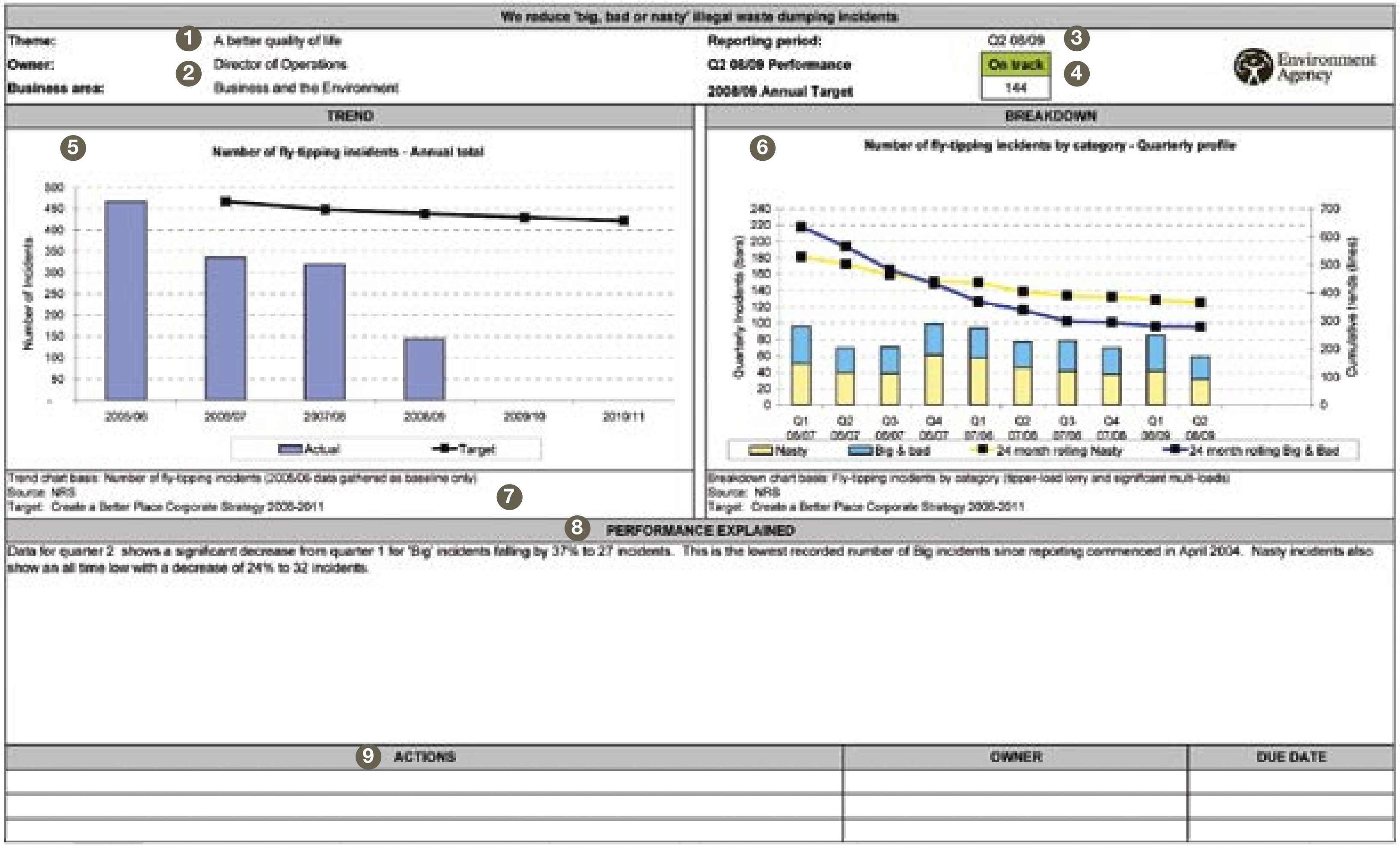
Case example

3.18 As described in section 3.13, the **Environment Agency** oversees a diverse policy portfolio. To allow the Board to focus on the most important performance issues, EA developed a Balanced Scorecard along with a template to report on individual performance measures. The consistent template makes it easy for Board members to identify important issues and quickly understand performance information. The template is concise and clearly structured and provides the Board with all necessary information and analysis to take action (see **Figures 13** and **14**).

Figure 13
The Environment Agency's Scorecard

1 Perspective of set of indicators
2 Rationale and context
3 Rag status and trend
4 Page number of analysis
5 Last year's status

Figure 14
The Environment Agency's Indicator Template



1 Context of the indicator
2 Owner and business area
3 Reporting period
4 Target and RAG
5 Graph of performance
6 Break-down of performance
7 Data source and limitations
8 Explanation and analysis
9 Record of actions

Part Four

Using the framework

4.1 The best performance measurement framework is ineffective if it is not used by the Board, senior management, and indeed the whole the organisation to drive performance. Performance information is used at many levels throughout an organisation and produces different benefits at each level.

4.2 We have identified three areas in which performance information can prove particularly valuable by:

- **Linking performance to financial information** allows Boards to assess Value for Money and make decisions based on cost-effectiveness;
- **Guiding decision-making** to improve performance, allocate resources, and enhance organisational capacity;
- **Creating a performance culture** is essential to drive performance throughout the organisation.

Linking performance to financial information

4.3 Linking financial information to performance information is crucial to the Board's ability to determine the Value for Money of an organisation's activities and make strategic decisions on resource allocation or process improvement. "Presentational" reporting, where cost and performance information is reported side by side, is the most basic form of integration. But decision making is best served by providing marginal cost information to answer questions such as "how much it would cost to achieve another unit of the intended outcome?", or "what investment is necessary to increase the rate of improvement from x to y?". Achieving the level of integration between financial and performance information needed to assess marginal cost is much more difficult and requires a robust costing methodology to be applied, for example activity-based costing.[23]

23 NAO, *Managing financial resources to deliver better public services*, 2008.

4.4 Only 29 per cent of the respondents to our survey linked financial information to performance information at programme level through activity-based costing. This result is corroborated by a previous NAO survey which found that 53 per cent of Departments find "allocating costs between outcomes is a […] challenge."[24] A further NAO survey found that only eight per cent of Departments have integrated financial information and performance information at Board level.[25] There are a number of reasons why organisations find linking financial and performance information so challenging:

- Attributing and validating the impact of activities to intended outcomes is often difficult to evidence;
- Costing objectives across organisational divisions requires new forms of recording costs; and
- Policy programmes often support more than one objective and therefore a strict allocation of costs to outcomes is not possible.

Case study

4.5 In a recent report, the NAO commissioned Accenture to examine the possibilities of the **Department for International Development** (DfID) applying a costing methodology to one of its Departmental Strategic Objectives (DSO).[26] DFID's DSO framework has objectives that stretch across divisions. Therefore, costing by division does not give managers a clear sense of how much activities cost by DSO objective. To generate this information, costs need to be allocated to activities that contribute to the DSOs[27] (see **Figure 15** overleaf).

4.6 Achieving a "Line of Sight" through inputs, outputs, and outcomes is essential to determining the costs associated with a DSO. Only where outcomes can be linked to the costs of inputs and outputs, can cost-effectiveness of DSOs be assessed. Where it is not possible to establish a direct link, as in some of DFID's DSOs, performance informed budgeting is the best alternative.

24 NAO, *Acting on information*, 2005.
25 NAO, *Managing financial resources to deliver better public services*, 2008, p. 20.
26 Accenture, *Performance Management in Whitehall*, 2008.
27 Accenture, *Performance Management in Whitehall*, 2008, p. 9.

Figure 15
Activity-based costing

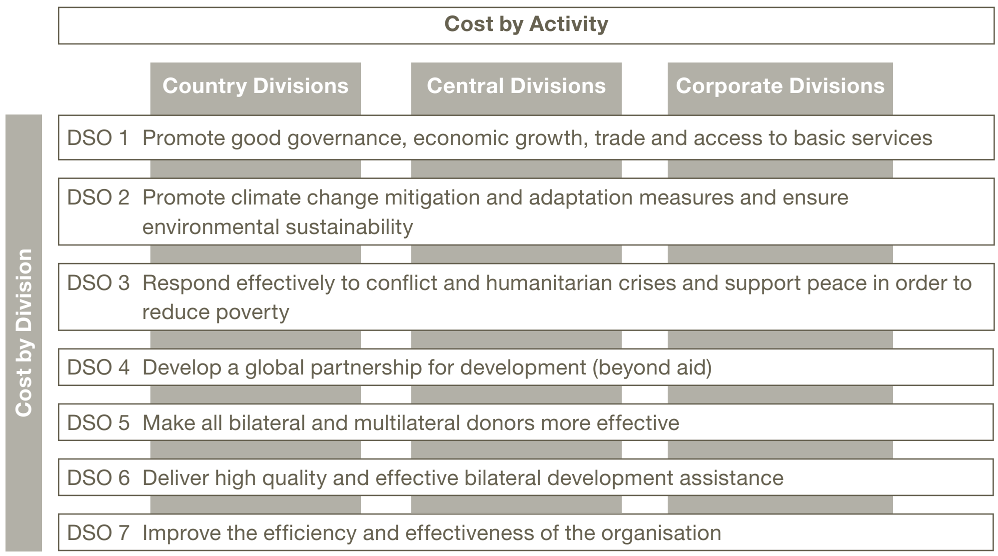


Figure 16
Example of Activity Based Costing

The following example demonstrates how above methodology can be applied to HIV and AIDS, which is a sub indicator within DFID's DSO 1.

DSO 1.4 (iii) – 'Percentage of most-at-risk populations reached with HIV prevention programmes'

The total cost for HIV and AIDS can be derived as follows:

	£ million
Cost of DFID's own managed programmes for HIV and AIDS	120
% of total budget spend based on partner government's spend ratio for HIV and AIDS	84
% of total multilateral spend based on historical spend on HIV and AIDS	31
% of admin spend apportioned to HIV and AIDS	5
Total HIV and AIDS spend	240

NOTE
The figures are for illustrative purposes only

Guiding decision-making

4.7 Performance information, especially when linked to financial information, has enormous potential to benefit Board decision-making. To get the most out of performance information, the most engaged Boards use it to make decisions about strategic direction, resource allocation and organisational capacity. Using performance information to inform Board decisions ensures that funds are directed at the most pressing issues and the most effective activities of the organisation.

4.8 Our survey showed that Boards frequently use performance information to monitor performance, but use it less to allocate resources, enhance capacity, and adopt new approaches or change work processes (see **Figure 17**).

Figure 17
The use of Board reports

Activity	Always %	Mostly %	Rarely %	Never %	No Response %
Monitor achievement against performance objectives	83	14	0	2	0
Identify programme problems to be addressed	61	32	7	0	0
Manage risks	61	32	5	0	2
Coordinate efforts within organisation or with external organisations	38	44	10	5	3
Manage resources operationally	37	40	14	9	0
Allocate resources to achieve strategic aims	33	36	20	10	0
Enhance organisational capacity	28	41	28	3	0
Adopt new approaches or change work processes	16	41	35	8	0

NOTE
Based on respondents from 42 organisations

Case example

4.9 Since the **Criminal Injuries Compensation Authority (CICA)** introduced its new performance measurement framework, it has become a major influence on decision-making. For example, the Board and senior management take decisions based on the scorecard to shift resources from lower to higher priorities. The scorecard also informs the Board and senior management of what performance is possible at a given level of funding and makes all trade-offs visible, leading to some KPIs being “parked” whilst others are focused on. An additional benefit is the fact that CICA can now model different outcomes and funding levels and base bids for additional funding on robust evidence.

Creating a performance culture

4.10 The culture of an organisation has a significant impact on performance. A dynamic performance culture will see motivated staff engaging critically with existing practices, and collaborating and communicating to effectively implement the organisation's mission. Creating a performance culture, where each member of staff knows how he or she contributes to organisational objectives can be amongst the greatest benefits of introducing a performance measurement framework. During the implementation process of a performance measurement framework three factors prove particularly important to successfully developing a performance culture:

- **Leadership** in the form of active support and a firm commitment from senior executives to implement a framework throughout the organisation;
- **Communication** of the implementation process must be transparent and comprehensive, explaining the framework and how the performance of each individual links to organisational objectives; and
- **Engagement** from all levels of the organisation must be sought at each stage of the process to increase buy-in and ownership by all staff.

4.11 Our survey found "generating buy-in" amongst the greatest challenges in implementing a performance measurement framework. Survey respondents gave examples of these difficulties; resistance from staff in accepting a transition to personal objectives, resistance to changes in organisational processes, and communicating the framework to a large number of staff from a variety of disciplines. The Cabinet Office's Capability Reviews recently found that two thirds of Departments have problems in their organisational culture, including the need for staff to feel able to 'speak up and challenge'.[28]

Case examples

4.12 Our follow-up interviews found examples of organisations in Central Government that have had success in implementing performance measurement frameworks and transforming the organisational culture and staff attitudes in the process.

- The **Criminal Injuries Compensation Authority's (CICA)** response in 2008 to criticism of its performance included a business process review and a new performance measurement framework. CICA adopted a traditional Balanced Scorecard approach. It wanted to become a "single sight organisation", which has one objective and a clear vision of how to achieve it. As a result it reviewed, mapped and streamlined key processes. At first the changes caused concerns among staff about the mechanisation of their work. However, the commitment of senior management to the programme led to benefits and efficiencies which have become increasingly accepted by staff, and more staff now make suggestions as to how further benefits can be realised. The Board review the scorecard quarterly,

28 NAO, *Assessment of the Capability Review programme*, 2009.

senior managers meet monthly to discuss the scorecard and prioritise resource deployment and operational managers use the scorecard to discuss strategies for meeting targets; all staff all staff have access to the CICA intranet Staff News which is updated weekly and includes information regarding key achievements. The performance measurement framework enables staff to understand the key goal of the organisation, and how they contribute to it. Seven months after introducing the scorecard (June 2008 – January 2009), CICA had made improvements on four out of nine KPIs and remained above target on another two.

- The **Environment Agency's (EA)** senior management encourages staff to challenge and improve it at every stage of the process. EA characterised its BSC as "evolving" – constantly improving while adapting to changes in external circumstances, and in which staff challenge plays a great part. This is part of a broader cultural development in the organisation. After performance management was introduced four to five years ago, the organisation focussed strongly on traffic lights and KPIs. More recently, the purpose of performance information has changed to facilitating performance discussions and enabling management decisions. EA told us that this change is recognised throughout the organisation. EA describes the evolution as a move from "performance reporting" to "performance management". A strong focus on outcomes structures a performance dialogue between directorates, including Finance, HR and the regional units involved. One illustration of this approach is EA's take on "barking measures" – that is, measures that do not make sense. For instance, performance against the measure "water resources" (water supply and demand balance is properly managed) was tracked by the number of inspections carried out to a certain target level. However staff fed back that a target level that makes sense varies by season and weather conditions. Therefore the measure gave inconclusive information and EA changed the target to accommodate this. This example shows that:

    - There is constant challenge throughout the organisation about the validity of measures and targets and staff are encouraged to identify areas for improvement;
    - A focus on outcomes empowers staff, by allowing them to decide how a targeted level of outcome is best achieved;
    - Organisations can use performance information to identify achievable improvement, rather than chasing arbitrary targets.

Part Five

Conclusion

5.1 Many Central Government organisations have made significant progress in developing and implementing effective performance measurement frameworks. Significant challenges remain, however, if Government is to get a full return on the investment in those frameworks in the form of better performance and clearer accountability.

5.2 Organisations that most successfully use performance measurement frameworks:

- Link them to the strategic objectives and key drivers of organisational performance, providing a comprehensive yet concise overview of the organisation;
- Report information of high quality, providing relevant context, presented in an accessible manner;
- Use performance information to assess Value for Money and make key strategic decisions at Board level, and embed performance measurement frameworks in a performance culture that builds on strong leadership, open communication, and engagement with all staff and stakeholders.

5.3 Appendix 2 provides a self-assessment matrix for organisations to assess their current level of maturity in performance reporting, enabling them to plan improvements.

Appendix One

Methodology

This report describes the enduring challenges associated with performance measurement and Board reporting in the UK public sector and identifies examples of where organisations have overcome these challenges.

Our results are based on:

- **A survey of 48 Central Government organisations**. We issued the survey to the Finance Directors of 48 Central Government bodies (17 Ministerial and non-Ministerial Departments, 24 Executive Non-Departmental Public Bodies (NDPBs) and seven Executive Agencies) in October 2008 (see Appendix 1 for a copy of the survey as sent out). The survey closed in January 2009.

- **Follow-up interviews with five Central Government organisations**. We selected five Central Government organisations (one Department, two executive agencies and two NDBPs) to interview in depth about their performance measurement framework. The organisations were selected based on good practice identified at the survey stage.

- **A commissioned report on the use of performance measurement frameworks in the private and international public sector**. A consultancy report by Accenture provided insights into best-practice outside of the UK public sector using case studies (three private sector companies, and two international public sector organisations).

Appendix Two

Maturity Model for Performance Measurement Frameworks

	Level 1 – Existing	**Level 2 – Functioning**
Developing a framework	A framework for performance measures exist. • Performance information gives a view of at least basic expected outcomes, outputs, and inputs • The performance measures in the framework are logically structured	The framework is structured around shared strategic objectives and provides an overview of the organisation's performance. • Performance measures show how the organisation is progressing towards achieving strategic objectives • The framework shows how enablers (inputs and processes) contribute to strategic objectives
Reporting performance information	Performance information is produced. • Performance data are collected throughout the organisation • Performance is collated at a corporate level to give on oversight of the organisation	Data is of high quality and timely. • Data are controlled for accuracy, reliability, validity, and robustness • Performance information is reported in a timely fashion to higher levels of the organisational hierarchy
Using the framework	Performance information is reported to the Board. • A performance report is provided to the Board	Performance information is monitored by the Board. • The Board monitors consequences and impacts of the performance reports • The Board discusses performance information with senior management • The Board ensures staff understand how they contribute to strategic objectives

Level 3 – Enabling

Performance measures are based on business models and delivery maps.

- Performance measures express progress on key drivers for the organisation
- The organisation understands the links between performance measures

Performance reports are accessible and actionable.

- Performance reports are coherently structured and easily understood
- Graphs, status ratings (e.g. RAGs), and explanatory notes allow the reader to focus on the most important issues and identify senior responsible owners

Performance information is used by the Board to evaluate the effectiveness of activities.

- The Board queries the effectiveness of activities, focusing on problem solving and generating learning
- Performance information is used to prioritise resources
- The organisation reports aligned performance and cost information

Level 4 – Challenging

The framework is integrated within the organisation.

- A line of sight links lower level objectives with high level strategic objectives
- Business unit, team, and individual performance measures are connected to the corporate performance measurement framework

Targets and benchmarks are used as comparators.

- Expectations for VfM are formulated in terms of challenging targets
- Benchmarks drive efficiency by providing comparators with other organisations

Performance information is linked to financial information and used to determine Value for Money.

- The organisation reports integrated performance and cost information
- The Board uses VfM information to make strategic decisions about whether or not to engage in areas of activity

Level 5 – Optimising

The links amongst key drivers of performance are quantified and validated to produce leading indicators.

- Statistical analysis evidences the relations between key performance drivers
- Selection of performance measures is based on the impact on outcomes of the drivers they represent

Performance reports explain the story of the organisation's performance and suggest a course of action.

- Analysis and reporting promotes cost effectiveness by providing option appraisal to assist decision-making
- Reports give insight into what has influenced performance, as well as describing performance achieved

Performance information is communicated and used throughout the organisation and a performance culture exists.

- The Board creates opportunities and incentives for staff to drive continuous performance improvement
- There is a feedback mechanism that enables the framework itself to be altered to take account of changing business needs
- Performance data inform debate of the marginal costs/benefits of activities and are used to drive allocative efficiency

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